

# MANAGED FUTURES

## Is the Trend Your Friend?

February 2010

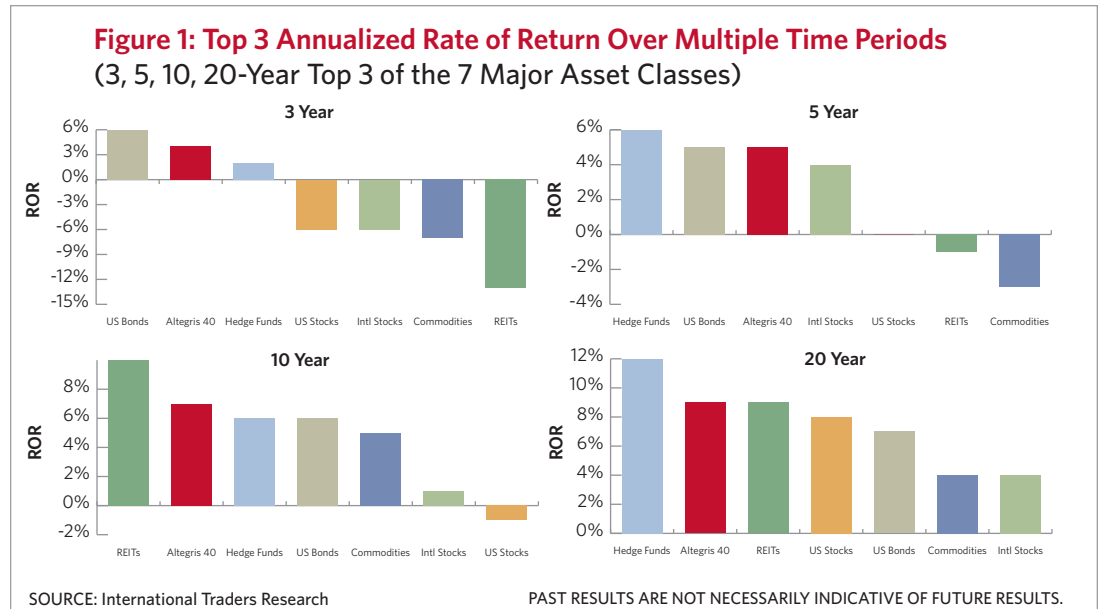
**T**he trend was truly managed futures' friend in 2008. Whether it was equities, interest rates or the commodities markets, most managers were able to capitalize on seemingly smooth long-term trends over the year, in the midst of the global economic crisis. During a time of extreme volatility for equity markets, traditional asset classes suffered their steepest declines in decades, while managed futures delivered positive returns of more than 15%.

In contrast, sideways price action across several markets wreaked havoc on both short- and long-term trend followers in 2009. While broader market volatility declined, certain key futures markets exhibited sharp, sporadic bursts of volatility in 2009 that were not favorable for trend followers of any kind. It

appeared that fundamentals were thrown out the window as unpredictable macro influences (U.S. government stimulus in particular) overrode supply and demand. Exacerbating this choppy situation, very few futures markets were immune as correlation among markets was extremely high.

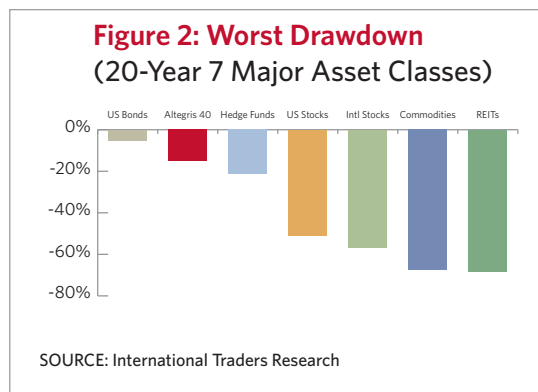
Looking forward, it's important to remember that 2008 and 2009 represent only two (albeit extreme) calendar years over a significant history for an asset class that has profited over the long term, through various market cycles. If we compare managed futures returns to the other major market indices since 1990, managed futures\* returned an impressive 476.24% in total return, second only to hedge funds (see Appendix 1 for more information.)

\*Represented by the Altegris 40 which tracks the performance of the 40 leading managed futures programs as reported to [www.managedfutures.com](http://www.managedfutures.com)



Perhaps more compelling on an annualized basis, managed futures ranked among the top three best-performing asset classes over this 20-year time frame as well as shorter time durations including the past three, five, and 10-year periods. Of course, when comparing performance of asset classes represented by indices, past performance of any asset class or index is not necessarily indicative of its future performance (as demonstrated in Figure 1).

Furthermore, comparing annual asset class performance over this time frame, managed futures has delivered investors positive returns in 18 out of the past 20 calendar years (see Figure 3).



## WHAT IS 'ALT' THIS TALK ABOUT RISK-ADJUSTED RETURNS?

Looking at returns alone, however, does not paint a complete picture. For instance, on a long-term basis, the U.S. equity market returned a respectable 8.21% (annualized) from 1990-2009. From this data, you might think allocating to the equity market was a stable selection. Nevertheless, we all know that the equity market experienced quite a bit of volatility over this period. From the dot-com bubble to the dot-com bust, through various wars in the Middle East, 9/11, and the housing market collapse, the equity market rode several waves of volatility, and put investors through several periods of significant drawdowns (peak to valley rate of return). From 1990-2009, the worst drawdown maxed out at nearly -51% for equities (see Figure 2). If you invested in October 2007 in the equity market, by February 2009 you had lost more than half of your total capital through the credit crisis.

In contrast, the worst drawdown for managed futures over the same time period was -15% during the five months from December 1991

**Figure 3: Rate of Return Over 20 Years**

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Altegris 40 37.15%	NAREIT 35.67%	HFRI 21.22%	EAFE 32.57%	EAFE 7.77%	S&P 500 37.57%	NAREIT 35.75%	S&P 500 33.38%	S&P 500 28.58%	GSCI 40.90%	GSCI 49.77%	NAREIT 15.50%	GSCI 32.08%	EAFE 38.59%	NAREIT 30.40%	GSCI 25.56%	NAREIT 34.02%	GSCI 32.68%	Altegris 40 15.47%	EAFE 31.78%
GSCI 29.07%	HFRI 32.19%	NAREIT 12.18%	HFRI 30.88%	GSCI 5.31%	HFRI 21.50%	GSCI 33.91%	NAREIT 18.86%	EAFE 19.97%	HFRI 31.29%	NAREIT 25.88%	BC Agg 8.42%	Altegris 40 15.22%	NAREIT 38.47%	EAFE 20.24%	EAFE 13.56%	EAFE 28.12%	EAFE 11.18%	BC Agg 5.24%	NAREIT 27.79%
BC Agg 8.95%	S&P 500 30.47%	S&P 500 7.65%	NAREIT 18.53%	HFRI 4.10%	GSCI 20.35%	S&P 500 22.96%	HFRI 16.79%	Altegris 40 12.61%	EAFE 26.97%	BC Agg 11.63%	Altegris 40 5.39%	BC Agg 10.27%	S&P 500 28.69%	GSCI 17.27%	HFRI 9.27%	S&P 500 15.79%	HFRI 9.95%	HFRI -19.03%	S&P 500 26.45%
HFRI 5.81%	BC Agg 16.00%	BC Agg 7.40%	Altegris 40 14.66%	S&P 500 1.32%	BC Agg 18.48%	HFRI 21.10%	Altegris 40 10.22%	BC Agg 8.67%	S&P 500 21.04%	Altegris 40 10.63%	HFRI 4.62%	NAREIT 5.22%	GSCI 20.72%	S&P 500 10.87%	NAREIT 8.52%	HFRI 12.89%	Altegris 40 7.18%	S&P 500 -36.99%	HFRI 20.05%
S&P 500 -3.10%	Altegris 40 15.12%	GSCI 4.44%	S&P 500 10.08%	NAREIT 0.79%	NAREIT 18.31%	Altegris 40 16.04%	BC Agg 9.68%	HFRI 2.62%	Altegris 40 0.87%	HFRI 4.98%	S&P 500 -11.88%	HFRI -1.44%	HFRI 19.55%	HFRI 9.05%	S&P 500 4.89%	Altegris 40 6.70%	BC Agg 6.96%	NAREIT -37.84%	GSCI 13.67%
NAREIT -17.34%	EAFE 12.14%	Altegris 40 0.89%	BC Agg 9.75%	BC Agg -2.92%	Altegris 40 13.16%	EAFE 6.05%	EAFE 1.77%	NAREIT -18.82%	BC Agg -0.83%	S&P 500 -9.09%	EAFE -21.45%	EAFE -15.94%	Altegris 40 15.99%	BC Agg 4.34%	Altegris 40 4.51%	BC Agg 4.33%	S&P 500 5.50%	EAFE -43.39%	BC Agg 5.93%
EAFE -23.44%	GSCI -6.14%	EAFE -12.17%	GSCI -12.33%	Altegris 40 -5.46%	EAFE 11.22%	BC Agg 3.61%	GSCI -14.06%	GSCI -35.75%	NAREIT -6.48%	EAFE -14.16%	GSCI -31.94%	S&P 500 -22.10%	BC Agg 4.11%	Altegris 40 2.57%	BC Agg 2.43%	GSCI -15.10%	NAREIT -17.83%	GSCI -46.49%	Altegris 40 -7.98%

↑ PERFORMANCE

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**Altegris 40** The Altegris 40 Index tracks the performance of the 40 leading managed futures programs based on ending monthly equity for the previous month.

**GSCI** The S&P GSCI Total Return Index measures a fully collateralized commodity futures investment. Currently the S&P GSCI includes 24 commodity nearby futures contracts.

**EAFE** The MSCI EAFE® Index (Europe, Australasia, Far East) is designed to measure developed market equity performance excluding No. America with dividend re-investment.

**S&P 500** The S&P 500 Total Return Index includes a representative sample of 500 leading companies of the U.S. economy. Dividends are reinvested on a daily basis.

**NAREIT** The NAREIT® Composite Total Return Index includes both price and income returns of all publicly traded REITs (Equity, Mortgage, and Hybrid).

The black line represents the border between positive and negative annual returns by asset class.

**BC Agg** The Barclays Capital U.S. Aggregate Index covers the U.S. investment grade fixed rate bond market representing taxable U.S. dollar securities.

**HFRI** The HFRI Fund Weighted Composite accounts for over 1600 hedge funds listed on the internal database of Hedge Fund Research, Inc.

SOURCE: International Traders Research  
PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.

to April 1992. Bonds were the only asset class that had a relatively low drawdown of -5.15%. However, on a total return basis, managed futures outperformed bonds over the same time period, with annualized returns of 9.15% over 20 years.

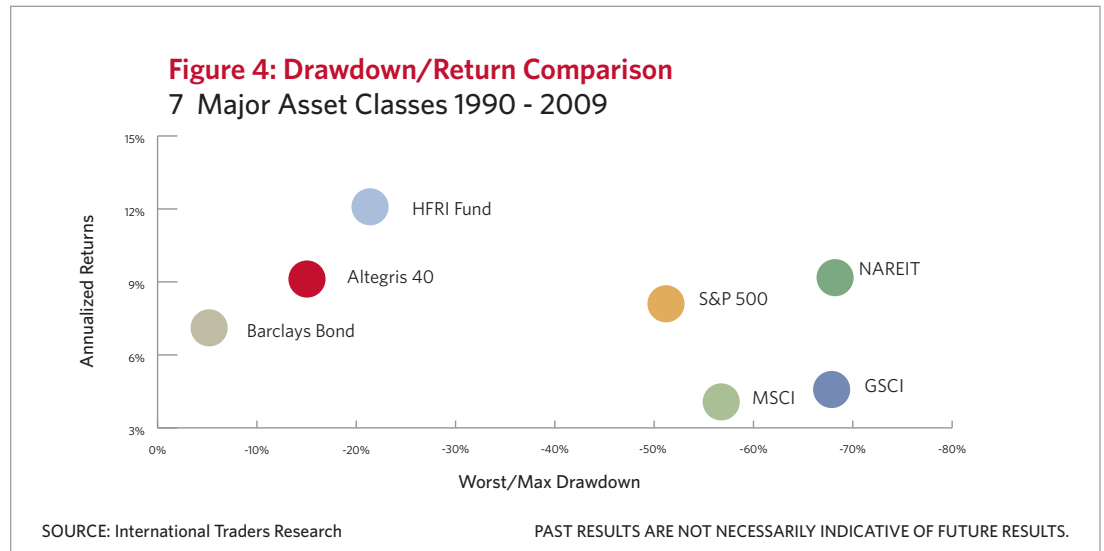
Taking into account the returns and the corresponding level of risk, we believe managed futures can represent a better risk-adjusted return than hedge funds, emerging market equities, real estate securities, and commodities for those investors in which managed futures may be a suitable option (see Figure 4 on the following page).

**NO ASSET CLASS IS AN ISLAND**

It is important to understand the potential role of managed futures in an investment portfolio, particularly the historical correlation with other asset classes. Most investors have a broad asset allocation, with a heavy weighting of stocks and bonds. In addition to stocks and bonds, research, most notably that of Dr. John Lintner, has demonstrated that it is desirable to invest in multiple asset classes, particularly ones with little correlation to existing investments, in order to attain a well diversified portfolio.<sup>†</sup> Our data suggests in 2008 when U.S. equities declined nearly -37%, investors whose portfolios included allocations to managed futures, in addition to equities, in many instances weathered the storm far better

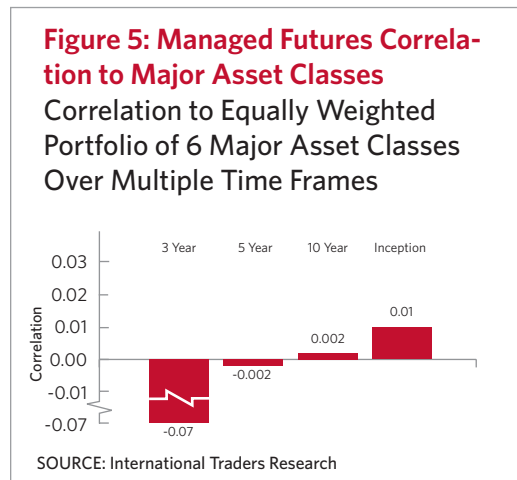
<sup>†</sup>"The combined portfolios of stocks (or stocks and bonds) after including judicious investments in leveraged managed futures accounts show substantially less risk at every possible level of expected return than portfolios of stock (or stocks and bonds) alone."  
-(Dr. John Lintner, "The Potential Role of Managed Futures Accounts in Portfolios of Stocks and Bonds", 1983).

\*(SOURCE: International Traders Research)



than those who did not, given the fact that managed futures rose by more than 15%\* .

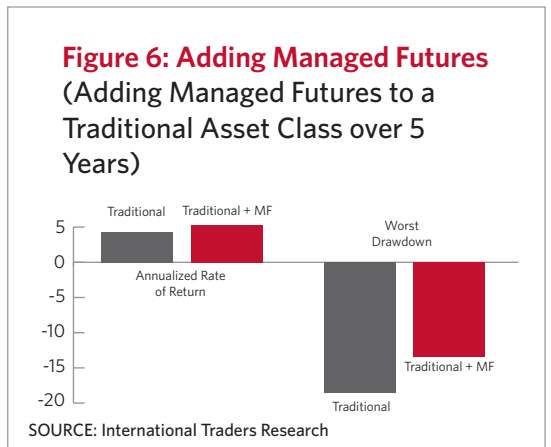
Similarly, the performance of managed futures has demonstrated a lack of historical correlation with investments in emerging markets, real estate, commodities and even bonds and hedge funds. Over the course of 20 years, managed futures have consistently demonstrated low or even negative historical correlations to each of the major asset classes. With all six of these major asset classes combined in an equally-weighted portfolio, managed futures averaged near zero historical correlations to the portfolio over the past 3, 5, 10 and 20-year time frames (see Figure 5).\*



\*Correlations are subject to changed and may vary over time.

**PORTFOLIO IMPACT**

Historically, these near zero correlations have resulted in an improved risk-adjusted return profile for the average investor that remained in the managed futures asset class for at least five years. For example, a traditional portfolio with 50% allocated to equities and 50% allocated to bonds provided annualized historical returns of 3.45% with a worst drawdown of



-25.17% (January 2005 through December 2009). For the investor who included an allocation to managed futures over the same five-year period (33% equities, 33% bonds, and 33% managed futures), the statistics improved dramatically. Annualized returns increased by nearly 1% to 4.29% while the worst

PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. The risk of loss in trading commodities can be substantial. See Important Risk Disclosures at the end of this document.

drawdown decreased by nearly 12% to -13.36% (see figure 6). Of course, when comparing performance of asset classes represented by indices, past performance of any asset class or index is not necessarily indicative of its future performance.

### **SHORT-TERM PAIN, LONG-TERM GAIN?**

At Altegris, we believe perseverance is rewarded over time. Following a terrific year for managed futures in 2008 (up 15.47%), we acknowledge that 2009 was a difficult year for the asset class (down -7.98%). Clearly it is important to look at performance on a longer time frame rather than purely short-term swings. A smooth trending environment like 2008 may or may not return again.

Likewise, a choppy, unfavorable market like 2009 is equally unpredictable. Most investors are seeking appreciation over a long time frame, through various market cycles.

Over the long term, managed futures have proven their resilience and diversification benefits for many investors. As a result, we believe that managed futures can be a critical asset for the portfolios of sophisticated and suitable investors. 

\*(SOURCE: International Traders Research)

## Appendix 1. Performance Statistics

### 7 Major Asset Classes Comparing 3, 5, 10, and 20 Year Time Frames

	3 Year				5 Year			
	Ann ROR	Std Dev	Max DD	Total Return	Ann ROR	Std Dev	Max DD	Total Return
Altegris 40	4.43%	10.25%	-7.98%	13.89%	4.90%	9.29%	-7.98%	27.00%
HFRI Fund Weighted Composite	2.24%	8.49%	-21.42%	6.87%	5.68%	7.27%	-21.42%	31.84%
S&P 500 TR	-5.63%	19.63%	-50.95%	-15.95%	0.41%	15.91%	-50.95%	2.08%
Barclays Aggregate Bond	6.04%	4.11%	-3.82%	19.25%	4.97%	3.67%	-3.82%	27.44%
MSCI EAFE - Net	-6.04%	23.58%	-56.68%	-17.06%	3.83%	19.47%	-56.68%	20.67%
NAREIT Composite Total Return	-13.25%	37.05%	-68.17%	-34.73%	-1.03%	30.14%	-68.17%	-5.07%
GSCI Total Return	-6.90%	30.67%	-67.65%	-19.30%	-2.97%	27.99%	-67.65%	-13.97%

	10 Year				20 Year			
	Ann ROR	Std Dev	Max DD	Total Return	Ann ROR	Std Dev	Max DD	Total Return
Altegris 40	7.34%	11.19%	-13.24%	102.98%	9.15%	12.10%	-15.00%	476.24%
HFRI Fund Weighted Composite	6.41%	6.89%	-21.42%	86.07%	12.17%	7.07%	-21.42%	895.18%
S&P 500 TR	-0.95%	16.07%	-50.95%	-9.10%	8.21%	14.99%	-50.95%	384.52%
Barclays Aggregate Bond	6.33%	3.82%	-3.82%	84.75%	7.01%	3.86%	-5.15%	287.73%
MSCI EAFE - Net	1.32%	17.75%	-56.68%	13.98%	4.13%	17.43%	-56.68%	124.48%
NAREIT Composite Total Return	10.12%	23.53%	-68.17%	162.25%	9.10%	18.70%	-68.17%	471.24%
GSCI Total Return	5.07%	25.22%	-67.65%	63.97%	4.48%	21.71%	-67.65%	140.12%

SOURCE: International Traders Research

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## Appendix 2. Correlation Statistics

### 7 Major Asset Classes Comparing 3, 5, 10, and 20 Year Time Frames

	3 Year Correlation Jan 07 - Dec 09							5 Year Correlation Jan 05 - Dec 09						
	Altegris 40	HFRI	S&P 500	BC Agg	EAFE	NA-REIT	S&P GSCI	Altegris 40	HFRI	S&P 500	BC Agg	EAFE	NA-REIT	S&P GSCI
HFRI Fund Weighted Composite	0.05		0.80	0.20	0.89	0.55	0.74	0.17		0.79	0.11	0.89	0.55	0.64
S&P 500 TR	-0.18	0.80		0.32	0.92	0.83	0.50	-0.06	0.79		0.25	0.91	0.82	0.40
Barclays Aggregate Bond	0.01	0.20	0.32		0.40	0.29	0.07	-0.04	0.11	0.25		0.30	0.24	0.02
MSCI EAFE - Net	-0.09	0.89	0.92	0.40		0.76	0.60	0.02	0.89	0.91	0.30		0.73	0.53
NAREIT Composite Total Return	-0.24	0.55	0.83	0.29	0.76		0.30	-0.14	0.55	0.82	0.24	0.73		0.22
S&P GSCI Total Return Index	0.01	0.74	0.50	0.07	0.60	0.30		0.04	0.64	0.40	0.02	0.53	0.22	

	10 Year Correlation Jan 00 - Dec 09							20 Year January 1990 - December 2009						
	Altegris 40	HFRI	S&P 500	BC Agg	EAFE	NA-REIT	S&P GSCI	Altegris 40	HFRI	S&P 500	BC Agg	EAFE	NA-REIT	S&P GSCI
HFRI Fund Weighted Composite	0.01		0.74	0.05	0.82	0.44	0.42	-0.03		0.73	0.11	0.65	0.43	0.26
S&P 500 TR	-0.23	0.74		-0.01	0.88	0.60	0.20	-0.14	0.73		0.19	0.72	0.53	0.09
Barclays Aggregate Bond	0.24	0.05	-0.01		0.09	0.17	0.03	0.23	0.11	0.19		0.14	0.19	0.02
MSCI EAFE - Net	-0.10	0.82	0.88	0.09		0.60	0.34	-0.08	0.65	0.72	0.14		0.46	0.17
NAREIT Composite Total Return	-0.07	0.44	0.60	0.17	0.60		0.13	-0.06	0.43	0.53	0.19	0.46		0.10
S&P GSCI Total Return Index	0.16	0.42	0.20	0.03	0.34	0.13		0.14	0.26	0.09	0.02	0.17	0.10	

SOURCE: International Traders Research

PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. The risk of loss in trading commodities can be substantial. See Important Risk Disclosures at the end of this document.

An investor cannot invest directly in an index. Moreover, indices do not reflect commissions or fees that may be charged to an investment product based on the index, which may materially affect the performance data presented.

### **Important Risk Disclosure**

The risk of loss in trading commodities can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. In considering whether to trade or to authorize someone else to trade for you, you should be aware of the following:

- If you purchase a commodity option you may sustain a total loss of the premium and of all transaction costs.
- If you purchase or sell a commodity future or sell a commodity option you may sustain a total loss of the initial margin funds and any additional funds that you deposit with your broker to establish or maintain your position. If the market moves against your position, you may be called upon by your broker to deposit a substantial amount of additional margin funds, on short notice, in order to maintain your position. If you do not provide the requested funds within the prescribed time, your position may be liquidated at a loss, and you will be liable for any resulting deficit in your account.
- Under certain market conditions, you may find it difficult or impossible to liquidate a position. This can occur, for example, when the market makes a "limit move."
- The placement of contingent orders by you or your trading advisor, such as a "stop-loss" or "stop-limit" order, will not necessarily limit your losses to the intended amounts, since market conditions may make it impossible to execute such orders.
- A "spread" position may not be less risky than a simple "long" or "short" position.
- The high degree of leverage that is often obtainable in commodity trading can work against you as well as for you. The use of leverage can lead to large losses as well as gains.
- In some cases, managed commodity accounts are subject to substantial charges for management and advisory fees. It may be necessary for those accounts that are subject to these charges to make substantial trading profits to avoid depletion or exhaustion of their assets. The disclosure document contains a complete description of each fee to be charged to your account by the commodity trading advisor. You should carefully study those sections of the disclosure document prior to making an investment decision.
- This brief statement cannot disclose all the risks and other significant aspects of the commodity markets. You should therefore carefully study the disclosure document and commodity trading before you trade, including the description of the principal risk factors of this investment.
- You should also be aware that a commodity trading advisor may engage in trading foreign futures or options contracts. Transactions on markets located outside the United States, including markets formally linked to a United States market may be subject to regulations which offer different or diminished protection. Further, United States regulatory authorities may be unable to compel the enforcement of the rules of regulatory authorities or markets in non-united states jurisdictions where your transactions may be effected. Before you trade you should inquire about any rules relevant to your particular contemplated transactions and ask the firm with which you intend to trade for details about the types of redress available in both your local and other relevant jurisdictions.

### **Conflicts of Interest**

Altegris acts as an introducing broker for individually managed futures accounts and as such, will receive a portion of the commodity brokerage commissions you pay in connection with your futures trading or receive a portion of the interest income (if any) earned on an account's assets. CTAs may also pay Altegris a portion of the fees they receive from accounts introduced to them by Altegris. Fees vary among different managed futures products and may be high. You are responsible for negotiating both brokerage commission rates and the amount of interest income credited to your account, as well as any management and performance fees you pay to any CTA trading your account. Altegris may also provide ongoing managed futures consulting services to its clients for a monthly service charge pursuant to individual managed account consulting arrangements.

As a result, there exists a conflict between Altegris' interest in maximizing the commissions and fees paid by you (in which it will participate) and your interest in minimizing those commission and fees.

## Altegris Investments

Altegris Investments provides access to a platform of alternative investments designed to meet the needs of sophisticated investors and their wealth managers. The Altegris team of over 65 professionals is dedicated to finding, selecting, and negotiating capacity with managed futures and alternative investment funds. Currently, investors have allocated more than \$2.5 billion in trading levels to investments available through the Altegris platform.

APM Funds, an affiliate of Altegris, is the sponsor of a family of alternative investment strategies, including managed futures. The funds are distributed through Altegris Investments.



Trusted Alternatives. Intelligent Investing.<sup>SM</sup>

Distributor of: **APM<sup>+</sup>Funds**

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